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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 000222

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TAGS: [FAIR](#) [ECON](#) [PREL](#) [CH](#) [TW](#)

SUBJECT: TAIWAN WORKING OUT CHARTER FLIGHT IMPLEMENTATION

REF: A. A) 04 TAIPEI 3523

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Classified By: AIT Director Douglas H. Paal, Reason 1.5 d

Summary

[1](#). (C) Taiwan authorities and airlines are moving quickly to implement the agreement reached by Taiwan and PRC negotiators January 15 on cross-Strait Lunar New Year charter flights. Only Taiwan investors in the PRC, their families and Taiwan employees will be able to buy tickets, despite protests from Taiwan students on the Mainland. According to Taiwan negotiator, Civil Aeronautics Administration Director General Billy Chang (Kuo-cheng), the negotiations proceeded more quickly than expected; the number of flights and the destinations were the only items that required real discussion. Quick resolution of these issues as well as political concerns that turned out to be non-issues highlight the fact that lack of political will is the real obstacle to further cross-Strait economic liberalization. (End Summary.)

Moving Forward

[2](#). (U) On January 15 in Macao, Taiwan and PRC negotiators agreed to allow 96 direct cross-Strait charter flights -- 24 round trips each -- to carry Taiwan businessmen and their families for the Lunar New Year. The flights will connect Taipei and Kaohsiung with Beijing, Shanghai and Guangzhou. Although the aircraft will not be required to land in Hong Kong, as during the 2003 Lunar New Year charter flights, they must pass through the Hong Kong flight information region. Direct flights should cut more than an hour from travel time. Although few fares have been announced, analysts predict the flights will be about 20 percent cheaper than regular flights. Shanghai Airlines has already announced a Taipei-Shanghai fare that is more than one-third lower than the usual rate for flights connecting through Hong Kong.

[3](#). (U) Six airlines from each side of the Strait will be allowed to participate. All of the Taiwan airlines) China Airlines (CAL), Eva Air, Mandarin Airlines, Uni Air, Far Eastern Air Transport (FAT), and TransAsia) will participate. The PRC's aviation authorities announced on January 18 that Air China, China Eastern, Shanghai Airlines, China Southern, Hainan Airlines, and Xiamen Airlines from the PRC side would provide flights. Each airline must coordinate with one or more from the other side of the Strait to provide ticketing and airport ground services. For example, CAL executives have indicated that CAL will provide ground services in Taiwan for Hainan Airlines and Air China. Air China will provide these services in Beijing for CAL and Mandarin Air. China Southern will be their agent in Guangzhou.

[4](#). (U) Taiwan's Civil Aeronautics Administration (CAA) should announce charter flight application procedures January 19, but Taiwan firms have already begun to divvy up the flights among themselves and announce schedules. Each plans four roundtrips. CAL and EVA will both fly from Taipei to Beijing, Shanghai and Guangzhou. Mandarin Air will provide Taipei-Shanghai and Taipei-Guangzhou service. UNI will fly from Kaohsiung to Shanghai and Guangzhou. FAT will service Guangzhou and Shanghai from Taipei, and TransAsia will only fly Taipei-Guangzhou routes.

Just for Taishang

[5](#). (C) The two sides agreed that the charter flight tickets would be available only to Taiwan investors in the Mainland, their families and the Taiwan employees of their Mainland facilities, and then only if the investment had been approved by Taiwan's Ministry of Economic Affairs. Airlines and travel agents will rely on Taiwan business associations to verify that travelers meet the qualifications. Many have complained that Taiwan students studying in the PRC were excluded, but the Taiwan government has remained firm that only Taiwan investors, their employees and families will be

allowed to buy tickets. These restrictions will limit profitability for airlines and may make it especially difficult to fill PRC-bound planes before the Lunar New Year and Taiwan-bound planes afterward. The Taiwan government's determination to restrict charter flight passengers appears to be aimed at maintaining control of the process of further liberalization of cross-Strait air links and limiting expectations and momentum that are emerging with charter flights.

Few Items of Contention -----

16. (C) CAA Director General Billy Chang, who participated in the Macao negotiations, told AIT/T that the two sides reached an agreement very quickly. They had planned a two-hour meeting, but only needed an hour. They quickly consented to most of the terms, which had largely been worked out by the KMT-led delegation to Beijing a week earlier and other indirect or informal channels. According to Chang only three items required real discussion. For instance, Taiwan proposed that each side be permitted to fly 36 round trips, but the PRC insisted on limiting the number to 24.

17. (C) The other two disagreements concerned which airports would be served by the flights. The PRC proposed that flights to both Xiamen and Taichung be included in the agreement. Taiwan rejected both. For Xiamen flights to pass through a third territory's airspace and remain feasible, they would have to pass through Japanese instead of Hong Kong airspace. Taiwan rejected this north-south path for security reasons. The Taiwan side also noted the mini-links as a convenient option available to Xiamen travelers. Taiwan refused to include Taichung because the airport serves both civil and military purposes. CAA officials also pointed out that the civil facility is inadequate with a small terminal and limited space for larger planes. (Note: Taichung Mayor and former Foreign Minister under the KMT Jason Hu in a speech to AmCham on January 19 lamented that Taichung was left of the list of Taiwan points to be served. He said that there were thousands of Taichung natives working in Fujian across the Strait that would be inconvenienced by the DPP government declining to let flights land in Taichung. Further, Hu said the military area of the Taichung airport, formerly a USAF SAC base, is "quite small." End Note.)

"One China" -----

18. (C) There has been much speculation regarding how the charter flight framework would handle various sensitive cross-Strait concerns. Most of these issues seemed to have been worked out with little difficulty. CAA's Chang told us that during the discussions in Macao there was no reference to the flights as "international," "domestic," or "special" routes. All discussions used the term "charter flights." Furthermore, both sides agreed to accept aircraft and pilot certifications provided by civil aviation authorities from the other side of the Strait. MAC and CAA officials have assured us that PRC aircraft with the PRC flag would be allowed to participate. Some had predicted that Air China would not be permitted by the PRC to provide charter flight service; because a direct translation of it's Chinese name is China International Airlines. Nevertheless, Air China will participate.

Comment) Details Follow Easily with Political Will -----

19. (C) Rapid negotiations, the easy handling of issues that Taiwan officials have previously described as very sensitive, and the speed of implementation all show that the technical barriers for improved cross-Strait economic relations are very small. As working-level contacts have told us repeatedly, if the political leaders on both sides of the Strait want to work together, a framework for cooperation can be established almost instantly. The 2005 Lunar New Year charter flights underscore once again that across a range of areas that includes not just travel and transportation, but also finance, telecommunications, trade and investment, the real obstacle to further cross-Strait economic liberalization is politics. (End comment.)
PAAL